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29 December 1955

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

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THE WEEK IN BRIEF

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PART I

OF IMMEDIATE INTEREST

THE 1956 SOVIET BUDGET Page 1

Preliminary analysis of the 1956 Soviet budget gives no reason to anticipate substantial economic and defense policy changes in the coming year. Stated defense expenditures are to decline from 112.1 billion rubles planned for 1955 to 102.5 billion for 1956. There are several reasons for believing, however, that military end-item procurement will not be reduced in proportion to this change and could even increase slightly in real terms. The high level of investment, the predominance of heavy over light industry, and the attack on agricultural stagnation continue as before. [REDACTED]

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FRENCH ELECTION Page 3

Latest official French estimates on the outcome of the 2 January election predict that the Communists may win 130 seats. With election of 30 Algerian deputies indefinitely postponed, 596 seats are at stake. The Communists had 98 seats in the assembly just dissolved. Recent campaigning by both Premier Faure and Mendes-France has concentrated on Algeria's relationship to metropolitan France. [REDACTED]

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AFTERMATH OF JORDAN RIOTS Page 4

The disorders in Jordan which blocked its adherence to the Baghdad pact have subsided, but the aftermath of the rioting poses serious problems for pro-Western Jordanian leaders. The extent of opposition to Britain and to the pact will probably result in an antipact majority if the forthcoming parliamentary elections are free. An attempt to ensure a victory of pro-Western candidates would lead to new disorders, probably more serious than those which accompanied the last election in October 1954, and might permanently discredit Jordan's present ruling group in the eyes of the people. [REDACTED]

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ARAB-ISRAELI SITUATION Page 5

Minor clashes continued last week along the Arab-Israeli borders, mostly in the Gaza strip area. [REDACTED]

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INDONESIA. Page 5

The air force crisis has ceased temporarily to be a threat to the Indonesian cabinet, but disunity on current Dutch-Indonesian talks may still bring about the government's collapse before the newly elected parliament convenes next spring. President Sukarno continues to oppose the cabinet's policies. [REDACTED]

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PART II

NOTES AND COMMENTS

Greek Elections and the Cyprus Issue: The Greek government is not likely to take further steps to solve the Cyprus issue or to normalize relations with Turkey until after Greek national elections in a few months. Greek foreign policy will probably be the dominant election issue. Prime Minister Karamanlis would face almost certain defeat if he appeared willing to compromise with Britain on Cyprus or to adopt a conciliatory approach to Turkey on the Istanbul and Izmir riots.

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[REDACTED] Page 1

North Africa: Algerian Moslems who had effectively paralyzed Algerian government operations by threats to resign from office have now decided to retain their government positions in order to use them in their resistance campaign against France. They will send a delegation to Paris after the French elections to confer with the new government.

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[REDACTED] Page 2

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New Czech Radar Height Finder: A new height-finder radar, believed to be the most effective now available to the Communist bloc, has recently been observed in Czechoslovakia. It employs an advanced type of electrical scanning. When used in conjunction with an adequate air search radar, it should perform in a manner comparable to the majority of American radars now in use. [REDACTED]

[REDACTED] Page 2

New Soviet Amphibious Equipment in Germany: The existence of a new Soviet amphibious tank has been confirmed in East Germany. The development of this tank and other new equipment contributes toward improving the flexibility and mobility of Soviet forces. [REDACTED]

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[REDACTED] Page 3

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Malaya: The two-day conference between representatives of the Malayan and Singapore governments and the Malayan Communist Party which ended on 29 December made little, if any, progress toward ending hostilities. Any further talks must be postponed for at least a month since Malayan chief minister Rahman leaves for London on 2 January for discussions on self-government. Rahman is expected to cite his firm stand against the Communists in demanding greater concessions from the British and, in turn, to use any gains toward self-government as weapons against the Communist Party. [REDACTED] Page 4

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Laos: Voting in the 25 December Laotian parliamentary elections was heavy despite an intensive Pathet Lao propaganda campaign calling for a boycott. Present returns indicate that the two parties which now form the coalition government will win about 28 of the 39 assembly seats and that Katay will remain as prime minister. Skirmishing continues in the northern provinces. Government leaders intimate that they have no immediate plans for a full-scale military campaign. [REDACTED] Page 5

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Thailand: Tension in Bangkok, which earlier in December threatened to erupt in armed strife, appears to have lessened somewhat, but serious friction within the ruling clique remains unresolved. [REDACTED] . Page 6 25X1

Nehru Publicly Criticizes Communist Line: Three recent public statements made by Prime Minister Nehru reflect his continuing pique over the behavior of Bulganin and Khrushchev during their visit and will help to minimize the effects of the visit on the Indian people. [REDACTED] Page 7

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Second Afro-Asian Conference Unlikely Before End of 1956: A second Afro-Asian conference is unlikely before late 1956 or early 1957 because of the reluctance of the Colombo powers--Burma, Ceylon, India, Indonesia, and Pakistan--to call such a meeting. [REDACTED] Page 7 25X1

Turkey: After several weeks in office, the new Turkish government of Prime Minister Menderes is taking some measures toward solving the country's economic problems. Turkey's financial difficulties are acute, however, and the measures Menderes is willing to support may not go far enough. [REDACTED] . . Page 8 25X1

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Afghan-Soviet Relations: Afghan prime minister Daud has provided further evidence that he expects to play the USSR against the West as long as the West is willing to keep a door open to him. He is trying to mitigate the effects of the recent Afghan-Soviet credit agreement by facilitating the operations of the American Morrison-Knudsen construction company. [redacted]

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Page 9

Argentina: Provisional President Aramburu remains in control of the Argentine government, but minor disorders and extensive arrests of civilian and military personnel indicate continuing disaffection with his regime. [redacted]

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Page 10

Paraguay: Paraguayan president Stroessner has at least temporarily strengthened his control over the government by removing the principal army and police officials involved in the brief military rebellion of 21 December. The political crisis within the ruling Colorado Party will continue. [redacted]

Page 11 25X1

Political Crisis in Peru: Peru's present political crisis appears to have resulted more from police mishandling of a riot in Arequipa, traditional "cradle of revolutions," than from serious general discontent or unrest. Popular unrest is deep, however, and with public confidence in the possibility of a free electoral campaign decreasing, more serious trouble may flare up. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

IRAQ'S POSITION IN THE BAGHDAD PACT Page 1

Britain's failure to bring Jordan into the Baghdad pact focuses attention on Iraq as the only Arab state in the "northern tier." Iraq's membership in the pact has not brought the benefits for which the Iraqis hoped when they joined. This, plus a new trend of Iraqi opinion against any sort of commitment with East or West, may eventually undermine the whole concept of "northern tier" defense. [redacted]

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SCANDINAVIAN REACTIONS TO RECENT SOVIET POLICY Page 3

The USSR's conciliatory gestures toward Scandinavia over the past two years, particularly the decision this fall to return Porkkala to Finland, have made a deep impression throughout the area. Government leaders and the press remain skeptical about Soviet intentions, but there probably will be increased pressure in Sweden, Norway and Denmark for a reconsideration of defense requirements, and in Iceland for evacuation of the American-manned air base at Keflavik. [REDACTED]

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THE SOVIET AUTOMOTIVE INDUSTRY Page 7

The ambitious targets of the Soviet automotive industry for 1950 will not have been reached by the end of 1955, either in terms of production or available plant capacity. With production far short of earlier expectations, the industry has been able to produce trucks in sufficient quantities to satisfy most military and some other major requirements, but has failed to satisfy others, notably agricultural. During the period of the forthcoming Sixth Five-Year Plan, the program of heavy investment in the industry, begun in 1946 and interrupted in 1949, should commence again with the introduction of newer-model vehicles. [REDACTED]

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TRADE CONTROLS AND COMMUNIST CHINA'S ECONOMY Page 10

A modest increase in Peiping's trade with free world countries would result if these countries would relax controls on trade with Communist China to the level of those applied to trade with European bloc countries. The progress of Chinese Communist industrial and military development, however, which has progressed substantially with Soviet bloc support, would not be significantly speeded up. [REDACTED]

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PART I
OF IMMEDIATE INTEREST

THE 1956 SOVIET BUDGET

Preliminary analysis of the 1956 Soviet budget gives no reason to anticipate substantial economic and defense policy changes in the coming year. The decline in stated defense expenditures appears to represent no significant change in planned procurement of military end-items. The high level of investment, the predominance of heavy over light industry, and the attack on agricultural stagnation continue as before.

Analysis of the budget is complicated by the introduction of lower wholesale prices in mid-1955, making comparison of 1955 and 1956 figures extremely

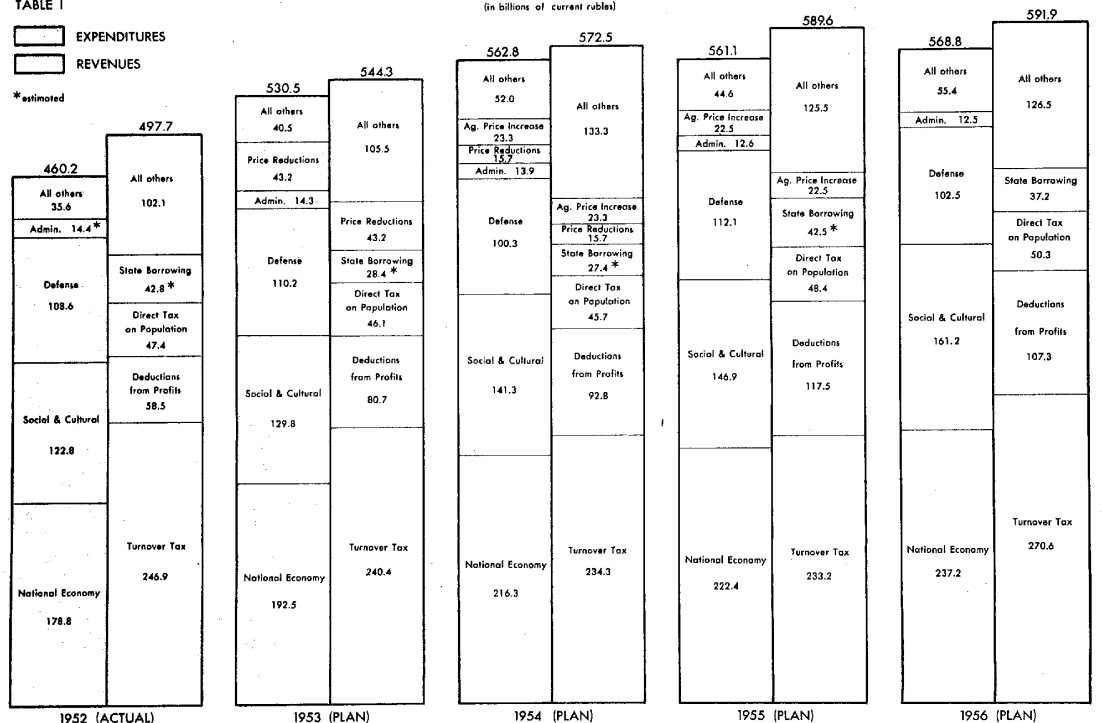
complex. Effects of the reduction, which probably averaged between 5 and 15 percent, vary from sector to sector in the economy. The absence of any reference this year to entries of previous years which are believed to be fictitious creates additional problems.

Stated defense expenditures are to decline from 112.1 billion rubles planned for 1955 to 102.5 billion for 1956. There are several reasons for believing, however, that military end-item procurement will not be reduced in proportion to this change and could even increase slightly in real terms.

TABLE I

EXPENDITURES
REVENUES

*estimated

SOVIET BUDGETS, 1952-1956
(in billions of current rubles)

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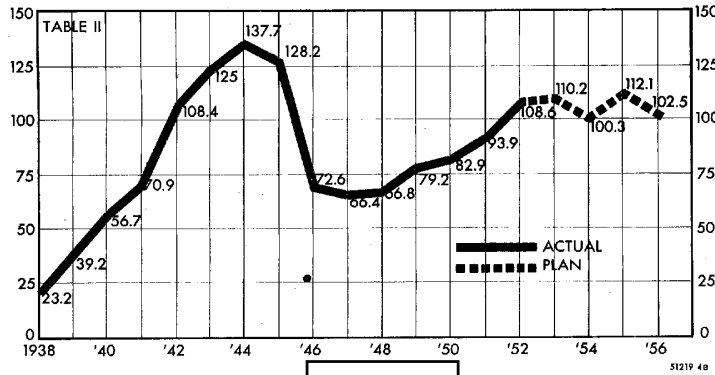
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ANNOUNCED SOVIET DEFENSE EXPENDITURES, 1938-1956

(in billions of current rubles)



lower than those achieved in recent years, but a similarly cautious plan for 1955 has been considerably overfulfilled.

The total allocation to agriculture will fall from 65.0 billion rubles planned for 1955 to 55.6 billion for 1956. The reason for this decline is unknown, since the major components of this allocation--funds for

(1) The defense allocation for 1955 may not have been fully spent. This happened in 1951-53.

(2) Demobilization of 640,000 men, if it has been carried out as claimed, could account for about half of the 9.6 billion reduction.

(3) The 1955 wholesale price cuts in industry have increased the purchasing power of funds allocated to military procurement.

(4) Unit costs of some military items, particularly aircraft, will decline if, as anticipated, the volume of series production rises.

Heavy industry retains its predominant role in 1956, receiving 86 percent of total allocations to industry, and 93 percent of investment allocations to industry. Minister of Finance Zverev also stated that output of heavy industry will continue to rise more rapidly than that of light industry--11 percent as opposed to 9.6. These growth rates are somewhat

Machine Tractor Stations and State farms--remain approximately at the 1955 level. Similarly, investment in agriculture remains at the high level established in 1954, when the "new lands" program was inaugurated. Thus the decline in the total allocation, which was also affected by price revisions, suggests a cutback of minor elements in the agricultural program.

Capital investment in 1956 is planned at 160.0 billion rubles, 15 percent above 1955 in comparable prices. Heavy industry's share of the total is to increase to 60 percent from 56 percent in the 1955 plan. Light industry's share is to fall from a high of 8.5 percent of the planned total in 1954 to less than 5 percent in 1956, a smaller share than in any year of the 1951-1955 period. As in 1954 and 1955, state agriculture and the transport and communications sector will each receive about 13 percent of total investment outlays.

The scientific research allocation continues to climb, reaching 13.6 billion rubles in

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1956, 30 percent more than the planned 1955 level. Expenditures in 1955 were reported to be about 10 percent higher than planned.

On the revenue side, the turnover tax is to increase sharply in 1956, with collections to exceed those planned in 1955 by 36 billion rubles, or about 16 percent. This move reverses the trend of recent years, in which turnover tax revenues have been declining. Although a rise in total sales

will provide some increase in collections, the size of the announced increase remains puzzling and suggests that accounting practices may have been changed.

Taxes on the population are to remain roughly at last year's level, as will the population's subscriptions to the state loan, which are tantamount to a tax. Contrary to Western news reports, the budget contains no reference to a retail price cut for 1956, an annual occurrence from 1947 through 1954. [] (Prepared by ORR)

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FRENCH ELECTION

The French Ministry of Interior has increased slightly its estimate of Communist party gains in the 2 January elections.

Reports from departmental prefects led the ministry on 23 December to predict that there would be 130 Communist seats, compared to 98 in the assembly just dissolved. Two weeks ago, the ministry foresaw maximum Communist representation of no more than 125. Other estimates, however, concede the Communists 35 to 40 additional seats. With election of 30 Algerian deputies indefinitely postponed, 596 seats are at stake.

Otherwise, the 23 December estimate sees the Radicals and Socialists losing some seats; the Popular Republicans remaining the same; the ex-Gaullists losing half their seats; and the extreme right, including the Poujade antitax groups, winning about 10 seats. Foreign Minister Pinay's Independent bloc is still expected to profit most from Gaullist losses.

The prefects also forecast a very low number of abstentions and expect the popular vote of all parties except the Gaullists to increase. The total vote, however, will depend on weather conditions on elections day.

In a speech at Marseille on 26 December, Mendes-France proposed a broader approach to the Algerian problem, advocating new free elections for an Algerian assembly and economic and social reforms. On the same day Premier Faure in Paris also advocated reforms and "consultation with Algerians." He has abandoned the idea of integrating Algeria and France proper, in favor of an undefined "federal formula." The premier deplored the use of the Algerian issue by some candidates "to gain a few seats," and continued to play up the need to stabilize the government through parliamentary reform.

Despite Mendes-France's efforts to set his Republican Front apart from the government coalition, the electoral alliances

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will probably not remain firm after the new assembly convenes. The Radicals are unlikely to maintain the current split in their ranks, and there are indications that influential conservatives may be sympathetic to Socialist participation in the government in order to reduce the possibility of a Socialist-

Communist rapprochement.. The anticipated strengthening of the right, therefore, does not rule out a certain degree of flexibility in the new assembly. The urgency of the Algerian question seems to have impressed all non-Communist elements with the need for the early formation of a government. [REDACTED]

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AFTERMATH OF JORDAN RIOTS

The disorders in Jordan which blocked its adherence to the Baghdad pact have subsided, but the aftermath of the rioting poses serious problems for pro-Western Jordanian leaders.

Dissident groups in Jordan reportedly exploited the demonstrations to make demands not directly related to the pact issue. In particular, the shooting of demonstrators by the Arab Legion has been used to attack the pro-Western element in Jordan, and the opposition has obtained the release of all the demonstrators who were arrested by the previous cabinet.

Reports from the West Jordan area, where the disorders were most severe, indicate that members of the administration and police forces sympathized with the demonstrators' aims. The extent of opposition to Britain and to the pact will probably result in an antipact majority if the forthcoming parliamentary elections are free. An attempt to ensure a victory

of pro-Western candidates would lead to new disorders, probably more serious than those which accompanied the last election in October 1954, and might permanently discredit Jordan's present ruling group in the eyes of the people.

Egypt, Saudi Arabia and Syria are meanwhile seeking to take advantage of the discomfiture of the British by suggesting that the Arab states offer Jordan an amount equal to the \$33,000,000 subsidy which London currently provides. The Amman government hopes to be able to avoid accepting this offer, both because acceptance would place the Hashemite royal house at the mercy of its traditional enemy, the Saudis, and because of well-founded doubts that the Arab states would or could keep up such payments on a continuing basis. King Hussain, however, has told the American embassy that he may be forced by public opinion into a position where he would have to accept. [REDACTED]

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THE ARAB-ISRAELI SITUATION

25X1 Minor clashes continued last week along the Arab-Israeli borders, mostly in the Gaza strip area.

talk to Arab leaders at any time. However, conditions posed by the Israelis remain unacceptable to the Arabs.

25X1 On Foreign Minister Sharett's return to Tel Aviv, he voiced concern to Charge White over the Egyptian arms build-up and indicated pessimism over the local situation. White commented that Sharett's reference to Egyptian controls over the Gulf of Aqaba and to the Eric Johnston plan for the Jordan River may be an oblique warning that forces within the Israeli government are urging action at these points.

[redacted] a repetition of Ben-Gurion's many offers to

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INDONESIA

The air force crisis has ceased temporarily to be a threat to the Indonesian cabinet, but disunity on current Dutch-Indonesian talks may bring about the government's collapse before the newly elected parliament convenes next spring. President Sukarno continues to oppose the cabinet's policies.

The joint chiefs are to suggest organizational changes in the air force to alleviate present factionalism and general inefficiency. The plan has President Sukarno's approval and may have been suggested by him. Prime Minister Harahap has said he is "satisfied" with the arrangement.

By unanimous agreement of the cabinet and other high civil and military officials, air force problems have been turned over to the attorney general and the joint chiefs of staff with orders to draft a solution within one month. The attorney general is to investigate and resolve problems arising from the 14 December incident in which air force personnel made a show of arms to prevent the installation of a new deputy air chief of staff.

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A more likely development is an opposition motion of no confidence in the Dutch talks sometime after the Indonesian parliament reconvenes on 10 January. Such a motion might draw enough support to bring down the cabinet. This strategy also probably depends on the approval of Sukarno.

The moderate Masjumi, which heads the cabinet, is polling fourth in returns from the constituent assembly elections of 15 December. The National Party--for which Sukarno has shown a strong preference--is leading and is followed by the NU and the Communist Party. Returns from outer islands, however, are likely to raise the Masjumi's position to second or third place.

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PART II

NOTES AND COMMENTS

Greek Elections And the Cyprus Issue

The Greek government is not likely to take further steps to solve the Cyprus issue or to normalize relations with Turkey until after Greek national elections in a few months. Greek foreign policy will probably be the dominant election issue.

Prime Minister Karamanlis would face almost certain defeat if he appeared willing to compromise with Britain over Cyprus or to adopt a conciliatory approach to Turkey over the Istanbul and Izmir riots. He therefore will probably continue to avoid any policy commitment, while hoping for a reduction of Cypriot violence and of tensions with Turkey.

London appears resolved not to offer a specific timetable for Cypriot self-determination and refuses to rephrase its formula for Cyprus to eliminate the implicit recognition of a Turkish interest in the island's status. Similarly, Turkey shows no inclination to make allowances for the feelings of the Greek public; it remains unyielding on Cyprus and continues to press Athens to resume normal relations.

The Greek foreign minister told Ambassador Cannon on 22 December that Athens would not influence Cypriot archbishop Makarios to resume discussions

with the British governor of Cyprus. Greece apparently hopes that Makarios will reopen negotiations on his own responsibility. The archbishop, however, under attack from both the rightists and the Communists, is not likely to do so without Athens' overt support. As a result, continued Greek and Cypriot temporizing may force the British to impose increasingly tougher repressive measures on Cyprus, with a proportionate rise in Greek and Cypriot popular feeling against Britain.

New irritations continue to crop up in Greek relations with Turkey. There are mutual recriminations over the indictment of Turkish consular officials in Salonika accused of instigating the local bombing which touched off the Istanbul riots. Ankara continues to reject Greek demands for a guarantee for the Greek minority in Istanbul and refuses to consider Athens' proposal concerning a mixed claims commission to handle the compensation due the Greek victims of the riots. Turkey's foreign minister recently said his government would present a compensation bill to the Grand National Assembly within the next few weeks.

There is at present little prospect for any genuine lessening of Greek-Turkish tensions.

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North Africa

The "Committee of 61"--Algerian Moslem legislators who had effectively paralyzed Algerian government operations by threats to resign from office--has now decided that its members will retain their government positions in order to use them in the resistance campaign against France. Their policy of nonco-operation was a strong factor in convincing Paris that the 2 January elections should be postponed in Algeria.

The Algerian legislators now plan to send a delegation to Paris after the French elections to confer with the new government. The committee's increased stature in Algeria may give Paris a representative nationalist body with which to negotiate Algeria's future status.

Terrorism in Algeria increased sharply over the week end and reportedly has accounted for at least 159 deaths in a five-day period. Attacks on military transport, communications and villages have brought a renewed demand for French reinforcements to expand the 175,000 French air and ground forces already in Algeria.

Nationalist activity is also reported spreading to Spanish Morocco, where the recent declarations by Generalissimo Franco that this zone would not receive early independence or a democratic government have accelerated plans to open a resistance campaign. Madrid has feared both a spread of the Rif fighting and a nationalist campaign similar to that in French Morocco.

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New Czech Radar Height Finder

A new height-finder radar, nicknamed SKEW FEED by Western intelligence agencies and believed to be the most effective now available to the Communist bloc, has recently been observed in Czechoslovakia. It employs an advanced and very effective type of electrical scanning. When used in conjunction with an adequate air

search radar, it could perform in a manner comparable to the majority of similar American radars now in use.

The first SKEW FEED was seen this past summer in Prague at Kbely airfield--which has been previously associated with new electronic developments.

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The SKEW FEED features a novel arrangement which permits the radar beam to sweep vertically at almost any speed so that information can be received at a faster rate than is possible with either V-beam or nodder-type radars.

Although no information is available regarding the technical characteristics or capabilities of SKEW FEED, its apparent similarity to an American naval radar suggests that the SKEW FEED has a virtually unlimited altitude capability and may be able to measure the altitude of jet fighters 80 miles away. By comparison, the TOKEN, a combined air-search, height-finder radar now extensively used throughout the Soviet bloc, is not believed capable of providing height information on fighters above 30,000 feet or at ranges greater than 40 miles.

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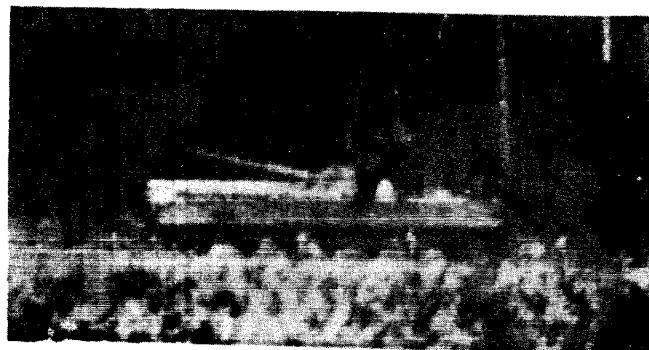
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New Soviet Amphibious Equipment In Germany

The existence of a new Soviet amphibious tank has been confirmed in East Germany.

be introduced since the prewar T-40. It has a flat deck on which is mounted a small

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SOVIET AMPHIBIOUS TANK

This amphibious tank is the first to

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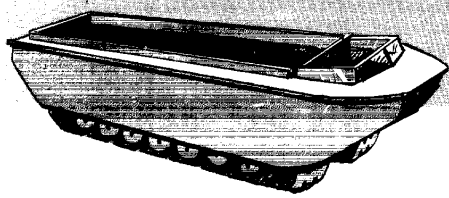
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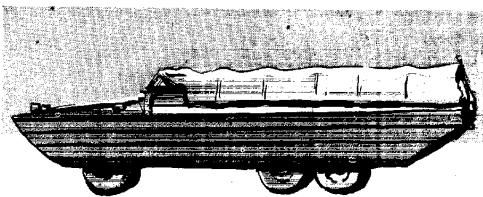
dome-shaped turret housing a gun of approximately 76mm caliber. Although complete technical characteristics are not available, the tank appears to be a true amphibian rather than a vehicle fitted with detachable flotation devices.



TRACKED AMPHIBIAN

ed in a river-crossing exercise in East Germany in 1954, is estimated to have a speed of 25 miles per hour on land and 5 to 10 in shallow water. Intended primarily for use by engineer units, it also could be used by assault troops to support bridgeheads.

In addition to this tank, Soviet forces in Germany have received since 1953 several types of amphibious vehicles of postwar design. The most significant are a wheeled 6x6 truck and a full-tracked transport, which have been reported in large numbers in nondivisional engineer units. The truck is a modified ZIS-151 which can transport about 25 men and their equipment or a load of about two tons. The tracked transport, first observ-



AMPHIBIOUS TRUCK

In addition to these vehicles, the Soviet forces in Germany have been importing new bridging and stream-crossing equipment in the last two years to make up for a previous deficiency in specialized river-crossing equipment. The Soviet army was noted in World War II for its ability to improvise in river-crossing operations. It probably now feels, however, that in the event of a fast-breaking operation into Western Europe opposed by forces equipped with modern weapons, World War II methods cannot be counted on to maintain the necessary speed of its offensive. These developments are considered part of the present trend toward improving the flexibility and mobility of Soviet ground forces.

Malaya

The two-day conference between representatives of the Malayan and Singapore governments and the Malayan Communist Party (MCP) which ended on 29 December made little progress toward ending hostilities. At the first session, Malayan chief minister Rahman refused a Communist request to legalize

the party, and before the meeting began, the Communists had rejected the government amnesty which, so far as government representatives are concerned, is the chief basis for the talks.

Government spokesmen, however, profess to see some hope

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for an end to the terrorism in a commitment apparently made by the Communists to lay down their arms when the local government obtains complete control of the security forces. Further talks, if held, must be postponed for at least a month, since Rahman will be in London during the intervening period for discussions on self-government.

The week before the conference opened, both the government and the Communist Party publicly stated their positions. Rahman emphasized he would explain the government amnesty and would "listen" to Communist views, but he would not negotiate. He charged that MCP secretary general Chin Peng was trying to make Malaya a satellite of Communist China.

The Communist Party mailed a manifesto to Malayan newspapers which rejected the amnesty, demanded the right to work openly toward independence

with other political parties, endorsed elements of the program of the Alliance, Malaya's leading political organization, and flatly stated the Communists would resume their drive to communize Malaya after independence.

To emphasize its current pretensions of being a national party, the MCP--whose membership is 95 percent Chinese and whose leadership heretofore has been entirely Chinese--has elevated a Malay, Musa bin Ahmad, to the post of central committee chairman. An Indian, Balan, has been named deputy chairman. Party leader Chin Peng retains the post of secretary general.

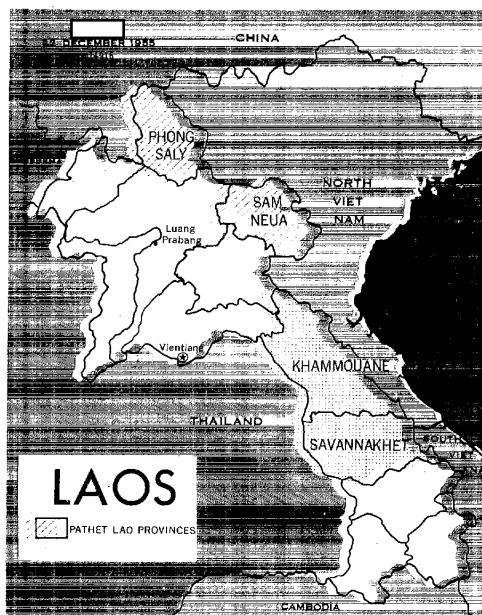
When Rahman goes to London on 2 January, he probably will cite his firm stand against the Communists to justify demands for concessions from the British. In turn, he may be expected to use any gains toward self-government as weapons against the Communist Party.

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Laos

Voting in the 25 December elections for the Laotian National Assembly was heavy despite an intensive Pathet Lao propaganda campaign for a boycott of the elections. On the basis of returns from the principal towns, Prime Minister Katay's Progressive Party is expected to win 18 of the Assembly's 39 seats, an increase of one over its present total, while Foreign Minister Phoui's Independent Party, the other partner in the government coalition, will probably again have 11 seats.

Katay scored a personal triumph, winning his assembly seat by a wide margin, and his position will apparently be



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further strengthened by the probable defeat of some Progressive deputies who have opposed him and their replacement by party members loyal to him.

The Pathet Lao are reported to have attempted to intimidate the voters of Khammouane and Savannakhet Provinces of central Laos during the last week of the campaign. The presence of roaming Pathet Lao armed bands in increasing numbers is reported in the former province.

Skirmishes continued in the northern Pathet Lao areas during the election period. Government troops mounted several small-scale actions and made a guerrilla raid on a Pathet Lao

munitions depot in Sam Neua Province. There are some indications that the Pathet Lao may be planning further attacks in the southern area of the province, where the 5-12 December skirmish occurred.

Laotian leaders in recent conversations with American officials have played down the prospect of an early military campaign by the government to clean out the Pathet Lao. Both the crown prince and the defense minister, formerly strong proponents of an offensive after the elections, now appear to have adopted a more cautious policy and to be considering emphasis on guerrilla and partisan operations. [REDACTED]

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25X1Thailand

Tension in Bangkok, which earlier this month threatened to erupt into armed strife, appears to have lessened somewhat, but serious friction within the ruling clique remains unresolved.

Premier Phibun, angered by the alleged attempts of Police Director General Phao and his followers to sabotage the premier's campaign to bring greater democracy to Thailand and to reduce corruption, has threatened to resign or to reshuffle his cabinet. Such a threat is interpreted as a maneuver to permit the premier to organize a new cabinet from which Phao and his followers would be excluded or at least further to reduce Phao's influence. This would leave Phibun and the army

chief, General Sarit, in almost undisputed control.

Meanwhile, the government is apparently reluctant to refuse permission for an opposition member of parliament, Thap Chotinuchit, to visit Communist China at the invitation of the Peiping regime. Both Phibun and Phao have indicated opposition to Thap's trip, but they have hinted--with little apparent justification--that under certain conditions they might be powerless to prevent his departure. The American embassy in Bangkok believes that the Chinese Communists will have achieved an important "psychological breakthrough" in Thailand should Thap go to China. [REDACTED]

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Nehru Publicly Criticizes
Communist Line

Three recent statements made by Prime Minister Nehru reflect his continuing pique over the behavior of Bulganin and Khrushchev during their visit and will help to minimize the effects of the visit on the Indian people.

On 23 December, Nehru told parliament that radioactivity in dust over Bombay had almost trebled since the recent Soviet H-bomb explosion. Though Nehru added that the amount of radioactivity was not dangerous to human beings, the criticism of the USSR is implicit and invites an unfavorable Indian reaction. Many Indians will recall that the Soviet leaders announced upon their departure from India that the USSR would continue to manufacture H-bombs. At the same time they had announced the USSR would not disband the Cominform, as India has several times suggested, and that progressive Communist ideas would inexorably triumph over older, obsolete ones.

On 25 December, Nehru remarked in a speech in south India that Communism and democracy are incompatible, adding that India did not want to be hostile to any country and would try to be friendly to all.

The next day he told a mass meeting in another south Indian town that the Indian Communists were reactionaries clinging to outmoded theories.

These statements make it clear to the Indian public that the Indian Communist Party has not acquired any respectability in the eyes of the government as a result of the Bulganin-Khrushchev visit. They directly contradict Bulganin's farewell statement to the press on 14 December in which he said that "The Communist parties, which stand guard over the interests of the working class... follow the most advanced and humane teaching--of Marxism-Leninism which has splendidly justified itself in practice."

The American embassy in New Delhi reports that a growing number of Indians privately admit with "apprehension" that the USSR has clearly jettisoned the Geneva spirit in its bid for influence in India and Afghanistan by deliberately promoting "cold war" in these countries. The embassy estimates that the Soviet campaign in India may have less success than was originally thought.

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Second Afro-Asian Conference
Unlikely Before End of 1956

A second Afro-Asian conference is unlikely before late 1956 or early 1957 because of the reluctance of the Colombo powers--Burma, Ceylon, India, Indonesia and Pakistan--to call such a meeting.

Ceylonese prime minister Kotelawala told the American

chargé on 19 December he had written Egyptian premier Nasr that the Colombo powers, which would be responsible for calling a second Bandung conference, do not believe the next meeting should occur in Cairo, as desired by Egypt, because of the unsettled Arab-Israeli situation.

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The five Colombo nations also want to reconsider whether or not another conference should be held at all.

The calling even of a preliminary Colombo powers' conference also seems unlikely for the next few months. Prime Minister Nehru has expressed opposition to a meeting in January, and spring parliamentary elections in Burma and Ceylon would prevent the five countries

from meeting at least until the end of April.

South Asian concern over Soviet exploitation of Middle East problems, as well as a general lack of enthusiasm for an early Bandung meeting, may have prompted a statement by Kotelawala to the effect that another meeting of the Afro-Asian countries will probably be delayed until December after the 1956 UN General Assembly or even some time late in 1957.

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Turkey

After several weeks in office, the new Turkish government of Prime Minister Menderes is taking some steps to solve the country's economic problems. Turkey's financial difficulties are acute, however, and the measures Menderes is willing to support may not go far enough.

The new ministers of finance, economy and commerce, and foreign affairs are sympathetic toward some reforms. They have taken steps to establish machinery to co-ordinate and control the government's economic activities, including an internal finance bureau. The ministers appear to be assuming greater responsibility for over-all direction of Turkey's economic efforts.

Nevertheless, despite new efforts to reduce expenditures,

a cash crisis of major proportions is in prospect for the next few months, resulting largely from failure to realize the estimated revenues from tobacco for December.

The government's gold reserve is pledged to the limit and its dollar holdings are less than \$500,000. Meanwhile, payments will be due shortly on an American loan and on the Turkish public debt. The government is relying on tobacco sales to cover these obligations, but the American companies which normally are the largest buyers are reportedly resisting the high prices asked by Turkey.

The Turks can be expected to continue their efforts to obtain a loan from the United States. [REDACTED]

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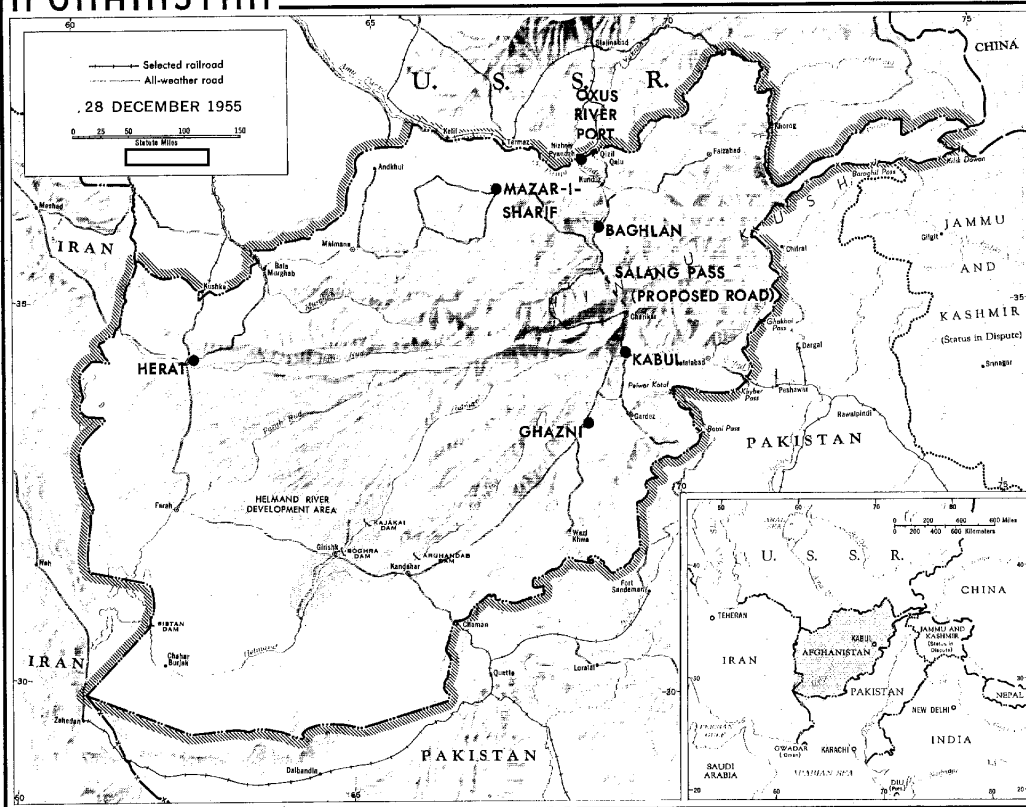
Afghan-Soviet Relations

Prime Minister Daud has provided further evidence that he expects to play the USSR against the West as long as the West is willing to keep a door open to him. His government has rescinded its informal ban on shipments through Pakistan of supplies for the American Morrison-Knudsen Company which is doing economic development work in the Helmand valley. Daud stated to the press that the new Soviet credit agreement would not affect Morrison-Knudsen's position in Afghanistan. Foreign Minister Naim has reiterated Afghanistan's desire for a settlement with Pakistan

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Argentina

Provisional President Aramburu remains in control of the Argentine government, but minor disorders and extensive arrests of civilian and military personnel indicate continuing disaffection within his regime.

Perhaps the biggest source of disunity within the government is the continued bickering between the army and navy, which all opposition elements are trying to exploit. In addition, Vice President Adm. Rojas' policy of removing officers in both services who had co-operated with the Peron regime has incurred the enmity of many of his fellow officers in the revolutionary movement. At the same time, the largest

anti-Peronista party, the Radical Civic Union, has been miserly in its support of the government.

Evidences of disunity within the regime have encouraged rumors that Aramburu may be replaced by various leaders, such as the commander in chief of the army, Lt. Gen. Julio Lagos, who headed the rebel movement in Mendoza during the September revolt against Peron and was a strong supporter of ousted President Lonardi. Continued tension and minor disturbances can be expected until the armed forces can reach some measure of agreement among themselves.

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Paraguay

Paraguayan president Stroessner has at least temporarily strengthened his control over the government by removing the principal army and police officials involved in the brief military rebellion of 21 December. However, the political crisis within the ruling Colorado Party will continue.

25X1 Further changes in top government posts are expected, partly because of Argentine pressure for the removal of pro-Peron officials.

Stroessner has already taken steps along this line in an effort to end the virtual

standstill in trade with Argentina, which is vitally important to Paraguay. Officials objectionable to Argentina were among those removed after the rebellion, and the administration is reported to have decided to relax internal political restrictions after the Colorado Party congress, which is scheduled to convene in March 1956.

Meanwhile, the government faces the politically delicate problem of disposing of Epifanio Mendez Fleitas, the Central Bank president and Colorado Party leader, reports of whose arrest are believed to have precipitated the rebellion. Although Mendez "resigned" from office on 23 December, his continued presence in Paraguay may still threaten the regime. It is not clear how much support he has among the armed forces or among the various rival Colorado leaders. 25X1

Political Crisis in Peru

Peru's present political crisis appears to have resulted more from police mishandling of a riot in Arequipa, traditional "cradle of revolutions," than from serious general discontent or unrest. Popular indignation is still strong, however, and with political passions aroused and public confidence in the possibility of a free electoral campaign decreasing, more serious trouble may flare up.

In an effort to regain lost ground, the Odria regime ostensibly "sacrificed" its minister of government, a former widely disliked secret police chief and main target

of public indignation. Odria then appointed an interim all-military cabinet, meanwhile boosting armed forces salaries by 20 percent.

The Arequipa disturbances on 21 December grew out of a raid by the pro-Odria Restoration Party on a National Coalition rally called to prepare for the 3 June presidential elections. A general strike which paralyzed Arequipa was called the next day by groups of workers, white-collar employees and students calling themselves "The United Front." Strikes and student meetings subsequently occurred at a number of points throughout Peru.

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Although the strikes have now been suspended, the "united front" organizations have not been disbanded, and peaceful demonstrations were staged in Lima on 27 December despite a government warning. Political opposition elements still are pressing three demands: repeal of the Law of Internal Security, which gives the government virtually unlimited power to suppress opposition; modification of the electoral law, which gives the regime increased power to control the machinery of elections; and a blanket pardon for all political offenders.

Political developments in recent months have all pointed to a well-directed plan by Odria to ensure the continuation of his regime in power by installing

a hand-picked civilian successor through rigged elections next June. Military elements, however, have feared that their privileged position might be endangered under a civilian president and felt that their interests would be better protected by one of their own leaders.

Odria's moves to conciliate the armed forces following the Arequipa outbreaks appear to have failed despite a 20-percent military pay increase, which is regarded by the military as an attempt to buy their loyalty. They do not seem sufficiently organized to oust Odria now, but his chances of having his way in the June elections appear much diminished.

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PART III

PATTERNS AND PERSPECTIVESIRAQ'S POSITION IN THE BAGHDAD PACT

Britain's failure to bring Jordan into the Baghdad pact focuses attention on Iraq's position as the only Arab state in the "northern tier." Iraq joined the pact for a variety of reasons: prestige, the prospect of economic and military aid, and the opportunity to revise the Anglo-Iraqi treaty. The implied Western security guarantee against the eventuality of a Soviet thrust into the Middle East was an important, but not a determining, consideration.

Iraq's Aspirations

The most important strategic attraction the pact had for Iraq was that it offered a means whereby Iraq might seize the leadership of the Arab world from its principal rival, Egypt. Iraqi leaders, particularly Prime Minister Nuri Said, presumably felt that the material and psychological gains which would accrue from membership in the pact would act as lodestones attracting Syria, Lebanon, and Jordan into an Iraqi sphere of influence. So far, however, Iraq's membership in the pact has not brought these benefits.

It now appears that Iraq will be the only Arab member of the Baghdad pact for an indefinite time. Despite the concerted efforts of Britain and Turkey to induce Jordan to become the second Arab member, Jordan is not likely to join in the foreseeable future. Syria, tied to Egypt by a new joint defense arrangement and under financial obligation to Saudi Arabia, is a more unlikely prospect than ever. Lebanon will probably be unable to commit itself while Syria stands in the Egyptian-Saudi camp.

Egypt's "victory" over the West in obtaining arms from the Soviet bloc has also frustrated Iraq. The Egyptian arms deal has met with general Arab approval, and elements in Iraq see it as an example of "throwing out the West" and a significant step toward Arab "independence." The Egyptians have called the attention of the Iraqis to the Soviet equipment being delivered to Egypt as compared with the "dribblets" Iraq has received from the West.

Unless Baghdad receives military aid of a kind and in an amount which it can point to as proving the benefits of association with the West, Iraq's sense of its own prestige is likely to suffer seriously. Reports from Baghdad indicate that the Iraqis are already restive on this score.

Arab-Israeli Conflict

To counter the activities of Egypt and Saudi Arabia and their charges that Iraq has sold out to the West, Baghdad is trying to prove that it remains hostile to Israel and that it is second to none in its concern for other "Arab" problems. At the recent Baghdad pact organizational meetings, Iraqi officials stressed the necessity of a settlement of the Arab-Israeli differences as a precondition to effective working of the pact.

To ward off criticism of Iraqi ties with Turkey, the old overlord of the Arabs, and of possible ties with Israel through Turkey, Iraq has induced Turkey to issue pro-Arab statements on a settlement of the Arab-Israeli problem.

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Nuri Said has repeatedly stressed that Iraq will not hesitate to use its resources to assist any Arab state subjected to Israeli aggression. Iraq has several times offered Iraqi troops to Egypt, Jordan, and Syria to defend themselves against Israel. The Iraqi ambassador in Washington has vied with the Syrians for the honor of acting as the Arab spokesman in joint demarches, and the Iraqi minister to Syria has warned that if the US sells arms to Israel, the "northern tier" would be destroyed.

To counter Egyptian and Saudi Arabian charges that by joining the pact Iraq has broken "Arab unity," Iraq has insisted that the pact has not changed its obligations to its sister states, and has frequently talked of strengthening the Arab League security pact.

Iraq has also tried to be more Arab than the Arabs in supporting North African nationalism. Baghdad has been a particularly vocal critic of French actions in North Africa and continues to try to take the lead in financial and diplomatic support of the nationalists. Recent examples are the reported Iraqi attempt to arrange a marriage between the royal families of Morocco and Iraq, and Baghdad's attempt to send a Red Crescent (Red Cross) unit to succor Moslem victims of disorders in Algeria.

Internal Pressures

Internal Iraqi pressures are also working against Iraq's continued active participation in the Baghdad pact. Local nationalist opposition to the pact has existed from the beginning of Iraq's association with Turkey. Nationalist groups, though suppressed under Nuri's "heavy hand," are critical of his government by decree, the banning of political parties, and are pressing for economic and social reforms, along with a reorientation of Iraq away from ties with the West.

A high Iraqi official has said recently that while the pact has been heartily supported and favored by the cabinet and by governmental and parliamentary leaders, it is not popular among the people at large, nor among many educated "intelligentsia." The official said there is a new trend of Iraqi opinion against any sort of commitment with East or West.

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The growth of such an essentially neutralist trend in Iraq would not only be a serious blow to the British, who have sought in the Baghdad pact a means of placing British interests in the Middle East on a firmer footing; such a trend would also threaten the whole

psychology of resistance to Communism in the Middle East, for if Iraq should eventually feel compelled to choose between giving priority to anti-Communism or to Arab unity, its present condition is such that it would probably choose the latter.

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SCANDINAVIAN REACTIONS TO RECENT SOVIET POLICY

The USSR's conciliatory gestures toward Scandinavia over the past two years, particularly the decision this fall to return Porkkala to Finland, have made a deep impression on public opinion throughout the area. Government leaders and the press remain skeptical about Soviet intentions, but there probably will be increased pressure in Sweden, Norway, and Denmark for a reconsideration of defense requirements, and in Iceland for evacuation of the US-manned air base at Keflavik.

Since 1953 the USSR has been waging a campaign to encourage neutralism in Scandinavia and thus weaken NATO's northern flank. Except for the return of Porkkala, there have been no startling moves in the campaign. The USSR seems to have relied instead on: the cumulative effect of a persistent attempt to expand contacts; general propaganda emphasizing a desire to reduce international tensions; sporadic trade moves; and on the avoidance of previous obstructive behavior in negotiations on various nonpolitical questions. In September 1954, for example, the USSR suddenly concluded an agreement with a private Swedish organization concerned with Baltic Sea rescue work.

Soviet-Scandinavian Contacts

The USSR's most sustained effort seems to have been devoted to promoting increased contact of Scandinavians with the Soviet bloc. All five Scandinavian governments have been induced in recent months to arrange visits to the USSR by parliamentary delegations or officials of cabinet rank, and exchanges of scientific, technical, artistic and sports delegations between the bloc and Scandinavia have shown a steady rise over the past two years.

The visit of Finnish president Paasikivi to Moscow in mid-September provided the occasion for announcing the decision to return Porkkala. In the same month, the Danish minister of agriculture and an entourage of experts visited the USSR. Norwegian prime minister Gerhardsen's visit to the USSR in November, made in response to persistent invitations, resulted in an agreement to foster increased "cultural" exchanges between the two countries, as proposed by Gerhardsen, with particular emphasis on youth groups. Gerhardsen evaded Khrushchev's counterproposal for increased contacts between the trade unions of the two countries and

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between the Norwegian Labor Party and the USSR's Communist Party.

The Swedish and Danish prime ministers have accepted Soviet invitations for visits, probably next March. Swedish and Finnish members of parliament visited the USSR in 1955 and 1954, respectively; and the parliaments of Denmark and Iceland have recently accepted invitations for members to visit Moscow. Norway has reciprocated the Soviet overtures by inviting Bulganin and Khrushchev to stop off in Oslo en route home from their projected visit to London next spring; and on 2 December the Swedish parliament formally invited the Supreme Soviet to send a delegation to Stockholm next spring.

In addition to the travels of diplomatic personnel and journalists, Scandinavian Communist Party officials and Scandinavian technicians working in Communist countries, 124 delegations from Scandinavia, most of them from Sweden and Finland, visited the Soviet bloc during the first half of 1955. In the same period, 83 bloc delegations entered Scandinavia. The size of the Scandinavian delegations ranged from one to nearly 100 persons each. As compared with previous periods, the Scandinavian delegations comprised a higher proportion of engineers, technicians, scholars and artists, including some with a known antipathy for Communism.

Though local Communist parties have apparently not benefited appreciably from the exchange program, the USSR seems to have gained considerable good will throughout Scandinavia.

Despite the stalemate at the recent Geneva conference, the Scandinavians seem to be persuaded that one way to reduce

international tensions and create better understanding among nations is through personal contact. The caliber of Soviet artistic and cultural representatives sent to Scandinavia has been generally high and their visits have stimulated a genuine interest in the Russian people.

The Return of Porkkala

The Soviet move with the greatest impact throughout Scandinavia has been the withdrawal from Porkkala. The evacuation of this base, now virtually completed, is interpreted by the Finns as proof of the correctness of their careful neutral foreign policy. The extension of the Soviet-Finnish mutual assistance pact for 20 years, while distasteful to many Finns, was accepted as the price for Porkkala.

The concessions on Porkkala also encouraged speculation in Finland that other territorial adjustments might be forthcoming in the border areas lost to the USSR after World War II. There is some optimism that, just as the Soviet Union recognized that the Porkkala base had become strategically superfluous, it may eventually draw a similar conclusion about parts of Soviet-held Karelia.

In Sweden, Norway and Denmark, the Soviet decision on Porkkala was popularly hailed as a move reducing the danger of war. But government leaders and informed opinion alike remained skeptical regarding the Soviet move, seeing it as a tactical maneuver to strengthen Moscow's demands that the United States abandon its bases in Europe.

In Iceland, the Soviet move stimulated the long-standing resentment over the American-manned NATO air base at Keflavik.

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Reykjavik government has made no real effort to explain to the public the base's role in NATO planning or the country's need of American troops in the absence of any Icelandic armed forces.

Immediately following the September announcement on Porkkala, leftist and anti-American groups in Iceland compared that Soviet base with the "American base" at Keflavik and urged American withdrawal. On 10 October the opposition Social Democratic Party introduced in parliament, as it had in 1953 and 1954, a resolution that the government ask NATO to review the need for the Keflavik base in light of the improved international situation. Similar resolutions have been introduced by the Communist and the National Defense Parties.

Meanwhile, the Communist-dominated Icelandic Federation of Labor has been promoting the idea of a new government coalition comprising all leftist parties--Communist, Social Democratic, National Defense, and Progressive. This effort, while extremely unlikely to succeed at present, could conceivably lead to the formation of a government hostile to NATO and Iceland's present defense policy.

Trade Policies

Economic inducements seem thus far to have played no consistent part in the Soviet campaign despite some rises in Soviet purchasing and the general desire on the part of

Scandinavian countries for increased East-West trade. The volume of Soviet trade with Denmark had been on a sharply reduced, barter basis since July 1954, when negotiations for a formal trade agreement were broken off over the Danish refusal to include tankers. The USSR took over a fifth of Finland's exports in 1954, but it is expected to reduce its purchases of a number of high-cost Finnish products like ships and machinery during the coming year.

In Iceland, on the other hand, the USSR has in the course of 1955 replaced the United States as the country's leading market. During the first nine months of the year, it absorbed \$5,521,000 or 15.4 percent of Iceland's exports, compared to \$5,000,000 or 13.6 percent purchased by the United States. Since August 1953, when Iceland and the USSR renewed formal trade relations after a lapse of several years, the USSR has become Iceland's chief source of petroleum and cement, as well as an important supplier of iron goods.

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During the course of Prime Minister Gerhardsen's Moscow visit, Norway and the USSR concluded a three-year trade agreement--something the Norwegians eagerly desired--calling for a considerable expansion of Norwegian fish exports.

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Defense Effort

The over-all effect in Scandinavia of the Soviet "charm" campaign has been to foster the belief that defense efforts need not be intensified although the stiff Soviet attitude at the Geneva foreign ministers' conference has thus far counteracted pressure for any relaxation of the defense effort. However, practically all Scandinavians are wary of antagonizing the USSR.

When pressed for a declaration against foreign bases during his recent Moscow visit, Prime Minister Gerhardsen felt obliged to reiterate Norway's statement to the USSR in 1949 that it is his government's policy to bar foreign troops or bases in Norway unless the country is threatened with attack. No such formal declaration has ever been issued by Denmark, but both the government and public opinion oppose the peacetime stationing of foreign troops in Denmark. Prime Minister Hansen may make a statement like Gerhardsen's in order to reach a trade agreement with the USSR that will not include tanker construction in the deal.

In Denmark, moreover, there is a segment of strong neutralist sentiment which the USSR is assiduously encouraging. In an unprecedented appearance before the influential Foreign Policy Association on 1 December, the Soviet ambassador emphasized the virtues of neutrality and held up Finland and Sweden as examples for Denmark to follow. The government so far has succeeded in avoiding cuts in its defense budget for fiscal 1956-57, but the minority pressing for such reductions is still active.

In Norway, the defense budget for 1955-56 was reduced in June 1955, primarily in the construction field, in

part because of domestic economic difficulties; and the government decided in mid-November to eliminate the winter refresher training maneuvers in West Norway. Important Norwegian leaders have admitted that anti-NATO sentiment is much more extensive than is generally assumed and that the Soviet "charm" campaign had a "relaxing effect on the public" during the summer and early fall. However, the Russians' reversion to their presummit behavior has since tended to strengthen popular support for defense.

The prime ministers of both Norway and Denmark have in speeches this fall stressed the importance of NATO for the preservation of peace. They have also emphasized that the NATO countries should not act unilaterally in defense questions, a possible reference to some pressure in both countries for a reduction in the conscription period from 16 to 12 months. No immediate action is anticipated on this issue, but if other NATO countries relax any phase of their defense effort, Denmark and Norway will be under strong pressure to follow suit.

In Sweden, both the government and the press have taken an extremely skeptical attitude toward the Soviet declarations of good will and relaxed tension. However, although the defense minister recently warned that the present international situation gives no cause to reduce preparedness, it has asked parliamentary approval to suspend all military refresher training during the 1956-57 training year, for budgetary reasons.

Finland and the Nordic Council

Another Soviet move likely to lend some encouragement to neutralist tendencies in

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Scandinavia is the USSR's withdrawal of its opposition to Finland's joining the Nordic Council, an event which occurred in late October.

The Nordic Council, an advisory body composed of parliamentary delegations from each of the Scandinavian countries, meets periodically with a view to co-ordinating national legislation short of defense

and foreign policy matters. These activities will not be much influenced by Finland's adherence, but the presence of a Finnish delegation--which will automatically include several Communists--will strengthen neutrality in the council, and probably inhibit the future development of closer political and military co-operation among the Scandinavian countries.

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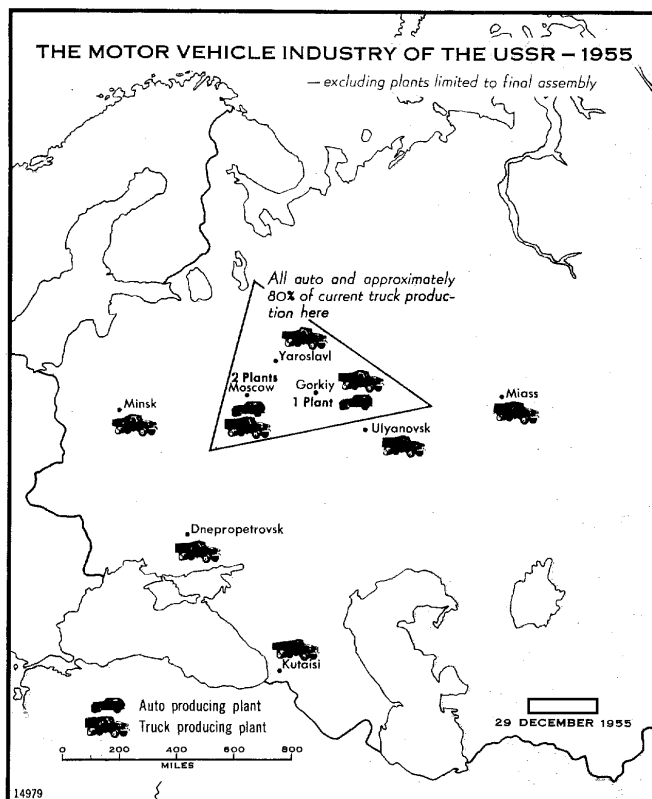
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THE SOVIET AUTOMOTIVE INDUSTRY

The ambitious targets of the Soviet automotive industry for 1950 will not have been reached by the end of 1955, either in terms of production or available plant capacity. With production far short of early expectations, the industry has been able to produce trucks in sufficient quantities to meet most military and some other major requirements, but has failed to satisfy others, notably agricultural. During the period of the forthcoming Sixth Five-Year Plan, the program of heavy investment in the industry, begun in 1946 and interrupted in 1949, should commence again with the introduction of newer-model vehicles.

passenger cars, and even less to manufacturing long-haul freight-carrying vehicles of the type familiar in the United States.

In the Soviet economy, the fundamental purpose of the motor vehicle industry is to produce trucks for short-haul transport. Only slight emphasis is given to producing



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The Fourth Five-Year Plan

The goal for 1950 announced in 1946 was the annual production of 500,000 motor vehicles, including 428,000 trucks--a sizable increase over the previous production peak of 200,000 vehicles in 1938.

In order to achieve that production level and to attain a capacity to produce 750,000 vehicles per year at the close of the fourth Five-Year Plan in 1950, heavy emphasis was placed on investing in new facilities. The industry's three prewar plants were to be expanded, three truck plants under construction were to be completed, and three more were to be started and nearly completed by the end of the plan. In addition, a small passenger-car plant and several plants limited to final assembly were to be built and put into operation.

The industry fell far short of meeting these goals, producing only about 350,000 vehicles in 1950, of which about 290,000 were trucks. Of six new truck factories authorized in the original plan, one was partially successful, one was abandoned altogether, and the other four were far behind original construction or equipping schedules, failing to develop even a fraction of the hoped-for production capacity.

A primary reason for this failure to meet planned goals was the high investment priority, beginning in 1948, given development of energy sources and basic metallurgy at the expense of machine-building industries. Additionally, the Western nations' embargo on machine tools prevented the USSR from importing automotive production equipment.

The Fifth Five-Year Plan

When finally announced in 1952, the fifth Five-Year Plan directives to the industry appeared extremely modest, calling for only a 20-percent production increase by 1955 over the 1950 level. Because production had dropped in 1951, however, the new goals actually represented an approximate 50-percent increase over 1951. It was apparent that heavy investment was not contemplated. No new factories were to be built, and principal increases in production were to be achieved by more intensive use of existing capacity.

It now appears that the industry's goals for 1955 will be met or slightly exceeded with a production of approximately 425,000 vehicles, including 335,000 trucks. By the end of this year, however, output will have nearly reached the practical peacetime capacity of existing vehicle plants in their present condition. Production of motor vehicles

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thus cannot continue to increase at the 1952-1955 rates of 10 to 12 percent per year unless relatively heavy investment is made in the extension or modernization of production facilities.

Trucks for the Military

The Soviet military forces have maintained a relatively constant inventory of approximately 350,000 motor vehicles during the postwar period. Beginning in 1951, the Soviet motor vehicle industry began to increase its output of all-axle-drive trucks, principally to meet increased military requirements, not only for heavy-duty cargo vehicles but also for chassis on which to mount a wide variety of mobile equipment such as newly developed armored personnel carriers, rocket launchers, mobile radar, communications equipment, repair shops, and other equipment increasingly essential to modern land warfare.

Current levels of production should meet the needs of the military forces for

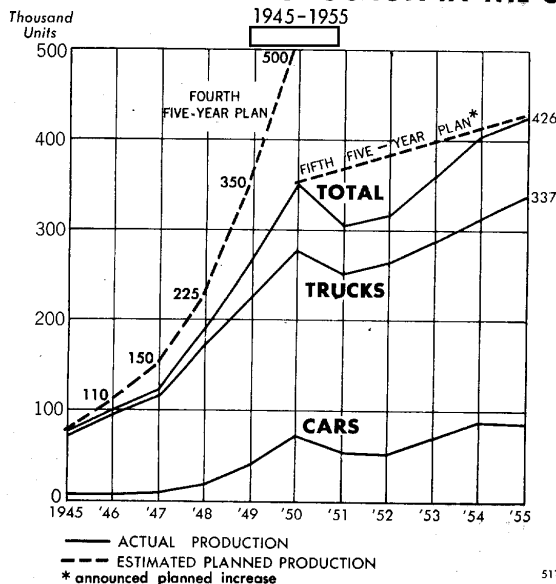
replacement and modernization purposes in the immediate future. All-out conversion to specifically military trucks could be effected relatively quickly (within two or three months), if necessary.

Trucks for Agriculture

The agricultural sector of the economy appears to have been hardest hit by the automotive industry's inability to achieve its earlier goals. When truck production fell during the 1951-1953 period, allocation of trucks to agriculture fell even more sharply, representing only 20 percent of total truck production, compared with an earlier share of about 30 percent. By 1954, with agriculture receiving sweeping new priorities, allocations of trucks to agriculture reached an unprecedented 40 percent of total truck production, highlighting the implied paucity of earlier allocations.

Contrasts With US Production

The production and use of motor vehicles in the USSR has a substantially different focus, and is considerably smaller as a percentage of total national economic activity, than in the United States. For example, at the end of 1954 the USSR had approximately 2,000,000 vehicles, of which more than 90 percent were general-purpose, short-haul trucks, suitable for employment on the limited road networks of the USSR. At the same time, the US possessed 56,000,000 vehicles, of which more than 80 percent were passenger cars. Of the almost

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10,000,000 trucks in the United States, a large portion are engaged in long-haul rather than short-haul transport.

The Sixth Five-Year Plan

Almost all of the trucks currently being produced in the USSR are basically models introduced immediately after World War II. The Soviet view of these motor vehicles was described by Deputy Premier Mikoyan in a December 1954 conversation with Finnish minister of interior Leskinen. Mikoyan, replying to a criticism of Soviet trucks, said he was perfectly aware that the present Russian cars and trucks corresponded roughly to General Motors products of 1939, but the 1939 models were, nevertheless, excellent and fully capable of performing the tasks for which they were designed. He added that "Soviet trucks are something like my wife--she is still very good indeed, but you would hardly call her modern."

As for the appearance of newer model trucks, a leading Soviet automotive official described the schedules which govern the production of new Soviet vehicle designs as follows:

"The development of a new motor vehicle is a long process. From three to five years are needed for design work, for building and testing experimental models, for finishing the design, and for production preparations. New motor vehicle models are produced for a period of from 10 to 12 years. After these models have ceased to be produced, it is from five to eight years before they are completely worn out. Thus, when a new motor vehicle design is contemplated, the operations of the motor vehicle industry, the motor transport organizations, and branches of the national economy associated with them have to be projected 15 to 20 years into the future."

Judging from this statement it appears likely that production of current models will continue probably until 1958 or 1960, at which time trucks of newer types will be phased into production. Thus, during the Sixth Five-Year Plan, investment in the industry should be much higher than during the Fifth Five-Year Plan, and the increased production capacity of the industry resulting from new tooling should begin to approach the goals established originally for 1950.
(Prepared by ORR)

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TRADE CONTROLS AND COMMUNIST CHINA'S ECONOMY

A modest increase in Peiping's trade with free world countries would result if these countries would relax controls on trade with Communist China to the level of those applied to trade with European bloc countries. The progress of Chinese Communist industrial and military development,

however, which has progressed substantially with Soviet bloc support, would not be significantly speeded up.

The British decision to take the initiative in pressing for a major relaxation of the multilateral controls on trade with Communist China promises

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to bring this long-standing issue to a head early in 1956. While a serious deterioration in the international situation could again delay revision and perhaps mitigate its severity, present indications are that London has almost unanimous support in the China Committee (CHINCOM) for lowering the China controls to the level of those applied to the rest of the bloc by no later than the end of next year.

Trade Volume

If this should occur, a modest increase in trade with free world countries would probably result as China increased purchases of presently embargoed transport equipment and machinery, and expanded exports to Japan. However, this increase would probably be far less than implied in Chinese Communist propaganda. A more significant increase would result if the United States, which maintains a unilateral total embargo, were to permit resumption of remittances to, and trade and shipping with, Communist China.

The rise in trade would be most marked with Japan, which is a nearby, cheap source of metals and machinery. Communist China has refused to export coking coal, iron ore and other industrial raw materials in large quantities so long as Japan maintains present controls. Soon after the special controls are dropped, Sino-Japanese trade probably would reach \$100,000,000 annually each way, or 5 to 6 percent of the total trade of each country. China's exports to Japan during 1955 are estimated at \$70,000,000 and imports at \$30,000,000.

Foreign Exchange Savings

The actual rise in Chinese trade with Western Europe probably would be less than commonly

anticipated, because Peiping already obtains embargoed items from these countries by means of transshipments through bloc countries. This trade could move openly and directly to China after controls are relaxed, however, with a reduction in costs to China of possibly \$2,000,000 in foreign exchange, which could then be applied to the purchase of additional strategic goods. Peiping probably would turn to Western Europe for some items presently supplied by bloc industries, but not to an extent which would appreciably affect China's trade orientation toward the bloc.

Communist China presumably would continue to buy steel products, which comprise the bulk of Western-origin embargoed commodities currently being obtained through transshipment. It would also emphasize purchases of transport equipment and other badly needed machinery but could be expected to continue buying, primarily from the USSR and European Satellites, complete factory installations, which involve the hiring of foreign technicians.

The termination of the differential trade controls against Communist China would also save Peiping the money it expends in premiums paid for embargoed items. For example, in 1955 Peiping paid Ceylon about \$8,000,000 more for rubber than it would have had to pay on the Singapore market.

Restrictions which currently deny the use of most of the free world's shipping for carrying strategic goods to Communist China would presumably be modified with any change in the level of trade controls. The availability of Western shipping for moving those bloc goods which presently move overland might save Communist China \$10,000,000 annually.

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Internal Savings

In addition to potential foreign exchange gains by China, internal savings by the entire Sino-Soviet bloc resulting from the relaxation of trade and shipping controls imposed on China might reach nearly \$90,000,000 annually. Soviet bloc savings, mostly benefiting the USSR, are estimated at \$65,000,000, much of which represents the cost of transporting petroleum products overland by rail to China. Internal savings of transport costs to China would approximate \$22,000,000.

The termination of the special trade sanctions against

China would not significantly affect the progress of Chinese Communist industrial and military development, which has progressed substantially with Soviet bloc support. These special controls have not denied China goods; if not available from bloc suppliers, items have been purchased and transshipped by bloc countries. With a relaxation, China's foreign exchange costs attributable to controls--which have been only one percent of the value of its total imports--could be saved and an additional 2-percent increase in imports could well result from the growth of trade with Japan. [REDACTED]
(Prepared by ORR)

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